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September 3, 2004

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Re: Docket No. OP-1207  
Bank Holding Company Rating System

Dear Ms. **Johnson**:

We appreciate the opportunity to comment on the proposed Bank Holding Company Rating System (the "Proposal") issued by the Board of Governors of the Federal Reserve System. BancFirst Corporation is a financial holding company with \$3 billion in assets. We own and operate two nondepository subsidiaries in addition to BancFirst, a state-chartered nonmember bank with 84 branches within the state of Oklahoma. We generally agree with the proposal to revise the bank holding company (BHC) rating system to emphasize **risk** management, but have some concerns about certain aspects of the Proposal. Our comments are set forth below.

1. The rating **of** the risk management subcomponents should follow the five-point scale used for **the R** component.

The proposal states, "Given that the level of detail in the analysis of the risk management subcomponents does not lend itself to rating on a five point scale, the subcomponents will be assigned a qualitative rating of Strong, Adequate, or Weak." We believe that this adds a level of complexity and subjectivity to the evaluation of the R component that is unnecessary and detrimental to the process. The definitions for the five point numerical scale for rating the R component describe the conditions of each of the four subcomponents that would be appropriate for the respective rating. These conditions should be expanded upon to develop a five point scale for rating the subcomponents that corresponds directly to the scale for the R component. This would eliminate the complexity of converting a three point scale to a five point scale for the overall rating for the R component. It would also reduce the level of subjectivity in determining the overall rating for the R component by aligning the definitions of the rating scale used for the subcomponents with the overall rating scale.

2. **The C** composite rating should be highly correlated to the numerical average of **the R, F, I** and **(D)** components.

The Introduction and Overview section of the Proposal states that the composite rating generally bears a close relationship to the component ratings assigned. The rating definition for the C rating does not contain this statement. Instead, it states the following:

- The composite rating encompasses both a forward-looking and static assessment of the consolidated organization.
- The C rating is not derived as a simple numeric average of the rating system components.
- It reflects examiner judgment with respect to the relative importance of each component to the safe and sound operation of the BHC.

This definition is highly subjective and would be impossible to apply with an acceptable degree of consistency between examiners and BHCs. There is no guidance in the Proposal as to how the composite rating should incorporate a forward-looking assessment. Also, a rating system that attempts to weight the relative importance of each component to the safe and sound operation of each individual BHC would be difficult to interpret, totally inconsistent in its application, and subject to the level of skill, training and understanding of each examiner. While we agree that the C rating should not be a simple numeric average of the ratings of the components, there should be a high degree of correlation, and deviations from the average should be infrequent, well supported by unique circumstances, and should be explained in the examination report.

3. The reference to nonbank Subsidiaries acting as a source of strength to the depository institutions should be deleted.

The rating definition for the Crating states that the composite rating encompasses an assessment of issues related to the parent company and nonbank subsidiaries acting as a source of strength to the depository institutions. We object to the inclusion of nonbank subsidiaries acting as a source of strength to the depository institutions. The composite assessment should only consider the likelihood of the nonbank subsidiaries having a significant negative impact on the depository institutions as evaluated for the I component rating.

4. The F component rating should be highly correlated to the numerical average of the C, A, E and L subcomponents.

The description of the F component states that the weight afforded to each of the CAEL subcomponents in developing the overall F component rating will depend on the relative importance of each subcomponent to the consolidated organization, as well as the severity of the rating assigned to each subcomponent. There is no further explanation of this in the Proposal. A weighting of the CAEL subcomponents depending on their relative importance to each consolidated organization would be highly subjective and would be impossible to apply with an acceptable degree of consistency between examiners and BHCs. It is also unclear how the severity of the ratings assigned to each of the subcomponents would be combined with this subjective weighting to be factored into the overall F rating. While we agree that the F rating should not be a simple numeric average of the ratings of the subcomponents, there should be a high degree of correlation, and deviations from the average should be infrequent, well supported by unique circumstances, and should be explained in the examination report.

5. The Proposal should describe how the evaluation of the capital adequacy of an organization should consider the risk inherent in an organization's activities.

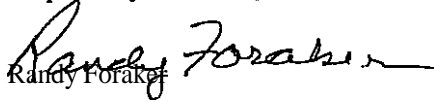
We agree that the evaluation of the C subcomponent for the capital adequacy of an organization should consider the risk inherent in its activities. However, the Proposal does not describe the concepts, standards or methodologies that might be used to make this evaluation, and how the amount of capital needed to support the risk in an organization's activities might be determined. Methodologies for measuring economic capital or risk capital are becoming more prevalent. The Proposal should refer to these or other concepts or methodologies that may be used by BHCs or examiners to evaluate the level of capital needed to support the risk in an organization's activities.

6. **The** rating of the **E** subcomponent should consider the risk inherent in **an** organization's activities.

The concept of risk and return is fundamental to the financial industry. An evaluation of the earnings of an organization should consider the risk inherent in its activities, just as the evaluation of its capital adequacy should. Peer comparisons do not take into account the differences in inherent risk of different organizations. Organizations with less risk would be expected to operate at a lower level of earnings. Conversely, organizations with a high level of risk would be expected to operate at a higher level of earnings. Volatility of earnings should also be considered as an indication of risk. Organizations with stable operating earnings would generally have less risk than organizations with volatile earnings. Considering **an** organization's risk in the rating of its earnings would result in a more meaningful rating, as opposed to using peer comparisons alone.

*Thank* you for the opportunity to comment on this Proposal. Please contact me at 405-270-1044 if you have any questions or would like to discuss our comments.

Respectfully submitted,

  
Randy Foraker

Executive Vice President  
and Chief Risk Officer